

SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.

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FINANCIAL STATEMENTS

JUNE 30, 2008



Leaf & Cole, LLP  
*Certified Public Accountants*

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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## Independent Auditor's Report

To the Board of Directors  
San Diego Youth & Community Services, Inc.  
3255 Wing Street  
San Diego, California 92110

We have audited the accompanying statement of financial position of San Diego Youth & Community Services, Inc. as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of San Diego Youth & Community Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from San Diego Youth & Community Services, Inc.'s June 30, 2007 financial statements and in our report dated October 3, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained on Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Youth & Community Services, Inc. as of June 30, 2008 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2008, on our consideration of San Diego Youth & Community Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Leaf & Cole LLP

San Diego, California  
November 19, 2008

SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2008  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2007

**ASSETS**

	<u>2008</u>	<u>2007</u>
<b><u>Assets:</u></b> (Notes 1, 2, 3, 4, 5, 6 and 7)		
Cash and cash equivalents	\$ 209,566	\$ 375,864
Investments	34,733	38,851
Receivables	1,777,210	2,139,122
Prepaid expenses and other assets	80,226	55,624
Land, buildings and equipment, net of accumulated depreciation	5,345,212	5,517,532
Endowment Assets:		
Cash	21,277	10,000
Investment in San Diego Foundation	<u>70,515</u>	<u>22,019</u>
<b>TOTAL ASSETS</b>	<b><u>\$7,538,739</u></b>	<b><u>\$8,159,012</u></b>

**LIABILITIES AND NET ASSETS**

<b><u>Liabilities:</u></b> (Notes 1, 6 and 7)		
Accounts payable and accrued expenses	\$1,364,697	\$1,318,398
Line-of-credit	687,504	464,460
Deferred revenue	9,000	46,195
Notes payable	1,304,366	1,342,787
Accrued interest payable	<u>213,164</u>	<u>191,829</u>
Total Liabilities	<b><u>3,578,731</u></b>	<b><u>3,363,669</u></b>

**Commitments and Contingencies** (Note 10)

<b><u>Net Assets:</u></b> (Notes 1, 8 and 9)		
Unrestricted:		
Undesignated	1,966,304	2,435,129
Designated for Youth Education Town	<u>75,574</u>	<u>78,988</u>
Total Unrestricted	2,041,878	2,514,117
Temporarily restricted	1,826,338	2,249,207
Permanently restricted	<u>91,792</u>	<u>32,019</u>
Total Net Assets	<b><u>3,960,008</u></b>	<b><u>4,795,343</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$7,538,739</u></b>	<b><u>\$8,159,012</u></b>

The accompanying notes are an integral part of the financial statement.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007**

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b><u>Support, Revenue and Gains:</u></b>					
Government contracts	\$10,008,692	\$	\$	\$10,008,692	\$ 9,088,195
Contributions and grants	612,336	440,605	59,725	1,112,666	2,574,799
Special events	214,909			214,909	189,981
Rental income	154,581			154,581	94,154
Miscellaneous	48,778			48,778	67,788
Investment income	7,912		48	7,960	23,627
Net assets released from restrictions	<u>863,474</u>	<u>(863,474)</u>		<u>-0-</u>	<u>-0-</u>
Total Support, Revenue and Gains	<u>11,910,682</u>	<u>(422,869)</u>	<u>59,773</u>	<u>11,547,586</u>	<u>12,038,544</u>
<b><u>Functional Expenses:</u></b>					
Program services	10,338,402			10,338,402	10,037,996
General and administrative	1,782,177			1,782,177	1,361,459
Fundraising	<u>208,700</u>			<u>208,700</u>	<u>253,941</u>
Total Functional Expenses	<u>12,329,279</u>	<u>-0-</u>	<u>-0-</u>	<u>12,329,279</u>	<u>11,653,396</u>
<b><u>Special Events</u></b>	<u>53,642</u>			<u>53,642</u>	<u>56,870</u>
Total Expenses	<u>12,382,921</u>	<u>-0-</u>	<u>-0-</u>	<u>12,382,921</u>	<u>11,710,266</u>
Change in Net Assets	(472,239)	(422,869)	59,773	(835,335)	328,278
Net Assets Beginning of Year	<u>2,514,117</u>	<u>2,249,207</u>	<u>32,019</u>	<u>4,795,343</u>	<u>4,467,065</u>
<b>NET ASSETS END OF YEAR</b>	<u>\$ 2,041,878</u>	<u>\$1,826,338</u>	<u>\$91,792</u>	<u>\$3,960,008</u>	<u>\$ 4,795,343</u>

The accompanying notes are an integral part of the financial statements.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007**

	2008				2007
	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries	\$ 5,710,740	\$ 884,488	\$104,371	\$ 6,699,599	\$ 6,591,975
Employee benefits	583,201	119,761	20,272	723,234	733,306
Payroll taxes	<u>469,264</u>	<u>89,512</u>	<u>8,596</u>	<u>567,372</u>	<u>491,290</u>
Total Payroll	6,763,205	1,093,761	133,239	7,990,205	7,816,571
Consultants	470,193	224,579	29,424	724,196	647,949
Occupancy	499,637	19,461	3,689	522,787	388,518
Subcontract	489,145			489,145	369,077
Foster care reimbursement	331,248			331,248	326,206
Supplies	174,556	130,324	7,419	312,299	188,385
Depreciation	278,888	27,923		306,811	280,613
Client costs	282,624			282,624	197,501
Maintenance	152,639	13,092	2,308	168,039	167,922
Mileage reimbursement	130,702	8,772	2,664	142,138	140,108
Small equipment	95,307	17,824	5,976	119,107	146,642
Telephone	92,009	19,381	2,223	113,613	173,949
Interest	29,102	76,918		106,020	82,994
Equipment rental and maintenance	70,850	17,458	3,034	91,342	64,497
Printing and publication	42,912	20,415	10,640	73,967	95,983
Conferences and meetings	63,729	6,000	815	70,544	81,732
Food	60,702	4,315	2,020	67,037	46,928
Professional fees		63,813		63,813	88,439
Insurance	56,418	5,568		61,986	93,343
Vehicle	53,903	62	15	53,980	20,370
Other expenses	39,821	5,821	3,595	49,237	28,356
Travel	39,174	3,250	187	42,611	60,644
Respite	31,843			31,843	23,400
Laboratory and medical services	27,891			27,891	18,142
Business taxes and licenses	19,285	388	100	19,773	7,068
Staff related expenses	15,539	2,441	95	18,075	22,210
Postage and freight	6,888	6,361	1,257	14,506	14,417
Bus tokens	11,512	62		11,574	11,991
Property taxes	8,216	266		8,482	19,993
Temporary help	464	6,891		7,355	14,868
Bad debts		<u>7,031</u>		<u>7,031</u>	<u>14,580</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$10,338,402</u>	<u>\$1,782,177</u>	<u>\$208,700</u>	<u>\$12,329,279</u>	<u>\$11,653,396</u>

The accompanying notes are an integral part of the financial statements.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2008</u>	<u>2007</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$(835,335)	\$ 328,278
<b>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:</b>		
Depreciation	306,811	280,613
Contributions and grants restricted for building purchases	-0-	(262,500)
Permanently restricted contributions	(59,725)	-0-
Permanently restricted investment income	(48)	(2,049)
Loss on disposal of equipment	851	-0-
<b>(Increase) Decrease in operating assets:</b>		
Receivables	361,912	(611,041)
Prepaid expenses and other assets	(24,602)	(16,045)
<b>Increase (Decrease) in operating liabilities:</b>		
Accounts payable and accrued expenses	46,299	259,798
Deferred revenue	(37,195)	(159,399)
Accrued interest payable	<u>21,335</u>	<u>21,335</u>
Net Cash Used by Operating Activities	<u>(219,697)</u>	<u>(161,010)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchase of land, buildings and equipment	(135,342)	(1,223,879)
Sale of investments, net	4,118	-0-
Increase in investment in San Diego Foundation	<u>(48,496)</u>	<u>-0-</u>
Net Cash Used by Investing Activities	<u>(179,720)</u>	<u>(1,223,879)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Contributions and grants restricted for building purchases	-0-	262,500
Proceeds from notes payable	-0-	725,000
Principal payments on notes payable	(38,421)	(95,774)
Permanently restricted contributions	59,725	-0-
Permanently restricted investment income	48	-0-
Advances (Payments) on line-of-credit, net	<u>223,044</u>	<u>348,944</u>
Net Cash Provided by Financial Activities	<u>244,396</u>	<u>1,240,670</u>

(Continued)

The accompanying notes are an integral part of the financial statements.



**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2008</u>	<u>2007</u>
Net Decrease in Cash and Cash Equivalents	\$(155,021)	\$(144,219)
Cash and Cash Equivalents at Beginning of Year	<u>385,864</u>	<u>530,083</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$230,843</u></b>	<b><u>\$385,864</u></b>
<b><u>Supplemental Disclosure of Cash Flow Information:</u></b>		
Cash payments for interest	<u>\$ 84,686</u>	<u>\$ 61,660</u>

The accompanying notes are an integral part of the financial statements.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:**

**Organization and Nature of Activities**

San Diego Youth & Community Services, Inc. ("SDYCS") is a private, nonprofit organization which has stabilized the lives of more than a half million San Diegans since opening in 1970. Its mission is to help at-risk youth become self-sufficient and reach their highest potential by investing in them, strengthening their families, and building their communities. Programs throughout San Diego County include: services for abused and neglected children, shelters for homeless and neglected teenagers, independent living housing programs for very young at-risk families and teens, drug treatment and prevention programs for teens, including pregnant and parenting teens, family assessment services, and educational enrichment programs for children. SDYCS' prevention and education efforts focus on AIDS, drug and alcohol use, child abuse, teen pregnancy, and gang prevention.

SDYCS' services and programs are funded through a combination of federal, state, county and city grants, and private donations.

**Significant Accounting Policies**

**Method of Accounting**

The financial statements of SDYCS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

**Financial Statement Presentation**

The financial statements are presented in accordance with Statement of Financial Accounting Standards No. 117, Financial Statements of Not-For-Profit Organizations, which requires SDYCS to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and disclosures. Accordingly, actual results could differ from those estimates.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:** (Continued)

**Significant Accounting Policies** (Continued)

**Contributions**

Contributions are recognized when the donor makes a promise to give to SDYCS that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Investments**

SDYCS follows Statement of Financial Accounting Standards No. 124 "Accounting for Certain Investments Held by Not-For-Profit Organizations" whereby investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position.

**Land, Buildings and Equipment**

SDYCS capitalizes acquisitions of land, buildings and equipment of \$1,500 or more. Land, buildings and equipment are recorded at cost. Donations of land, buildings and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, buildings and equipment are reported as restricted support. Absent donor stipulations regarding how long their donated assets must be maintained, SDYCS reports expirations of donor restrictions when the donor or acquired assets are placed in service as instructed by the donor. SDYCS reclassifies temporarily restricted net assets to unrestricted net assets at that time. Buildings and equipment are depreciated using the straight-line method over the estimated useful asset lives. Depreciation aggregated \$306,811 and \$280,613 for the years ended December 31, 2008 and 2007, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the assets account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Impairment of Long-Lived Assets**

SDYCS evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

**Compensated Absences**

Accumulated unpaid vacation and other employee benefit amounts totalling \$381,401.23 and \$347,889.74 at June 30 2008 and 2007, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

**Revenue Recognition**

Grants and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants and contract receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred revenue totalled \$9,000 and \$46,195 at June 30, 2008 and 2007, respectively.

**Donated Services and Materials**

Donated services have not been reflected in the accompanying financial statements since no objective basis is available to measure the value of such services. Nevertheless, volunteers have donated significant amounts of their time on SDYCS' program services and its fundraising campaigns.

Contributed materials are recorded as contributions at their estimated fair values at the date of receipt. During the years ended June 30, 2008 and 2007, SDYCS received approximately \$163,463 and \$39,158, respectively in contributed materials which were used in various programs.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:** (Continued)

**Significant Accounting Policies** (Continued)

**Allocated Expenses**

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by SDYCS' management.

**Income Tax Status**

SDYCS is a Nonprofit California Corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code on income related to their tax exempt purpose.

**Concentration of Credit Risk**

SDYCS maintains its cash in bank deposit accounts which at times, may exceed federally insured limits. SDYCS has not experienced any losses in such accounts. SDYCS believes it is not exposed to any significant credit risks on cash and cash equivalents.

SDYCS has contracts with 18 government agencies. For the year ended June 30, 2008, government grants comprised of approximately 87% of total revenue, including approximately 40% and 19%, respectively, from county and state sponsored agreements.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, SDYCS considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2007

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:** (Continued)

**Significant Accounting Policies** (Continued)

**Reclassification**

SDYCS has reclassified certain prior year information to conform with current year presentations.

**Comparative Information for June 30, 2007**

The financial statements include certain prior year summarized comparative information in total, but not by net asset class for the year ended June 30, 2007. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SDYCS' financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**Note 2 - Investments:**

SDYCS's investments are stated at fair value and consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Mutual Funds	<u>\$34,733</u>	<u>\$38,851</u>

The following schedule summarizes the investment income and its classification in the statement of activities for June 30:

	2008		
	Unrestricted	Permanently Restricted	Total
Interest and dividend income	\$7,912	\$1,040	\$8,952
San Diego Foundation		(992)	(992)
Total Investment Income	<u>\$7,912</u>	<u>\$ 48</u>	<u>\$7,960</u>
			<u>\$23,627</u>

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 3 - Receivables:**

Receivables consist of amounts due from the following funding sources as of June 30:

	<u>2008</u>	<u>2007</u>
Federal agencies	\$ 677,733	\$ 155,374
County of San Diego	515,655	983,496
State agencies	276,598	330,805
AFDC	195,566	136,710
Foundations and other	101,678	524,672
City of San Diego	<u>9,980</u>	<u>8,065</u>
	<u>\$1,777,210</u>	<u>\$2,139,122</u>

Unconditional promises to give totalling approximately \$100,000 and \$520,000 as of June 30, 2008 and 2007, respectively, included above are expected to be collected within one year.

Management believes all receivables are collectible, therefore no allowance for doubtful accounts has been established at June 30, 2008 and 2007.

**Note 4 - Land, Buildings and Equipment:**

Land, buildings and equipment consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Buildings and improvements	\$4,442,187	\$4,394,461
Land	2,307,343	2,307,343
Equipment	469,298	467,920
Vehicles	250,080	245,380
Computer hardware	<u>61,865</u>	<u>113,834</u>
Total	7,530,773	7,528,938
Less: Accumulated depreciation	<u>(2,185,561)</u>	<u>(2,011,406)</u>
	<u>\$5,345,212</u>	<u>\$5,517,532</u>

**Note 5 - Investment in San Diego Foundation:**

SDYCS has investments in San Diego Foundation, which are classified as permanently restricted as the investments must be maintained in perpetuity. The funds at San Diego Foundation are invested in a "Balanced Pool" portfolio, which are structured for long-term return. The investments are carried at fair value and totalled \$70,515 and \$22,019 at June 30, 2008 and 2007, respectively.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 6 - Line-of-Credit:**

SDYCS maintains a line-of-credit with a bank, in the maximum amount of \$1,300,000, which is collateralized by all of the assets of SDYCS and matures October 25, 2009. Interest is payable monthly at the Wall Street Journal U.S. Prime Rate, plus 0.5% (5.5% at June 30, 2008). The outstanding balance on the line-of-credit was \$687,504 and \$464,460 at June 30, 2008 and 2007, respectively.

**Note 7 - Notes Payable:**

Notes payable consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Notes payable, San Diego Housing Commission, interest accrues at 3%, \$84,834 due in September 2025, \$375,000 due in August 2049, and \$413,000 due in October 2061, secured by land and buildings. Principal and interest are payable annually from residual receipts as defined in the note. No payments were due for the years ended June 30, 2008 and 2007.	\$872,834	\$ 872,834
Note payable, bank, monthly payments of \$3,563, including interest at 6.75%, balance due October 2026, secured by land and buildings.	374,275	390,727
Note payable, bank, monthly payments of \$1,056, including interest at the rate on United States Treasury Securities plus 3.75% (5.90% at June 30, 2008), balance due December 2010, secured by land and buildings.	28,357	38,134
Note payable, Redevelopment Agency of the City of San Diego, noninterest bearing, no monthly payments are required, due May 2014, secured by land and buildings. Principal and interest is payable annually from residual receipts as defined in the note. No payments were due for the years ended June 30, 2008 and 2007.	28,900	28,900
Notes payable, bank, aggregate monthly payments of \$1,256, including interest at 6.5%, balance due April 2008, secured by land and buildings.	-0-	12,192
	<u>\$1,304,366</u>	<u>\$1,342,787</u>



SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2007

**Note 7 - Notes Payable:** (Continued)

Principal payments on notes payable are due as follows:

Years Ending <u>June 30,</u>	
2009	\$ 22,556
2010	25,465
2011	20,477
2012	15,680
2013	15,300
Thereafter	<u>1,204,888</u>
	<u>\$1,304,366</u>

**Note 8 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
<b><u>Purpose or Program Restrictions:</u></b>		
Storefront building and improvements	\$ 795,308	\$ 795,308
Health education	325,569	313,432
Take Wing	230,662	270,313
Bridge property renovation	153,612	153,612
YET	95,209	164,270
Teen Options	87,500	46,253
Deaf Group Home	33,437	57,800
Project Sanctuary	33,172	136,356
Foster care	33,000	64,353
Bridge operations	20,000	-0-
East county support	10,000	-0-
Harbison Canyon - After school care	6,653	56,280
Coastal	1,456	2,045
Other	760	192
Action	-0-	166,560
Family Round Table	-0-	22,433
	<u>\$1,826,338</u>	<u>\$2,249,207</u>

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 8 - Temporarily Restricted Net Assets:** (Continued)

**Net Assets Released From Restrictions**

Net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes as follows for the year ended June 30, 2008:

Storefront	\$208,165
Action	166,560
YET	154,061
Project Sanctuary	103,184
Take Wing	50,213
Harbison Canyon - After school care	49,626
Teen Options	46,253
Foster care	31,353
Deaf Group Home	30,843
Family Round Table	22,433
Coastal	588
Other	<u>195</u>
	<u><b>\$863,474</b></u>

For the year ended June 30, 2008, the net assets released from restrictions exceeded the temporarily restricted contributions by \$422,869.

**Note 9 - Permanently Restricted Net Assets:**

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested permanently. Permanently restricted net assets consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
General Endowment	\$21,277	\$ 10,000
San Diego Foundation	<u>70,515</u>	<u>22,019</u>
	<u><b>\$91,792</b></u>	<u><b>\$32,019</b></u>

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 10 - Commitments and Contingencies:**

**Redevelopment Agency of San Diego**

In 1994, SDYCS received \$500,000 from the Redevelopment Agency of San Diego, which was used to purchase its Wing Street facility. A condition of the agreement required SDYCS to continue to use the facility for its programs until 2049. However, if SDYCS does not meet this condition, the \$500,000, plus accrued interest at 3% is to be returned. Management intends to use the facility in its programs. Accordingly, the \$500,000 of principal at June 30, 2008 and 2007 and accrued interest of \$195,000 and \$180,000 at June 30, 2008 and 2007, respectively have not been reflected in the financial statements as a liability.

In 1999, SDYCS received \$490,000 from the Redevelopment Agency of San Diego to retire a note payable on its Wing Street facility. A condition of the agreement required SDYCS to continue to use the facility for its programs until 2054. However, if SDYCS does not meet this condition, the \$490,000, plus accrued interest at 10% is to be returned. Management intends to use the facility in its programs. Accordingly, the \$490,000 of principal at June 30, 2008 and 2007 and accrued interest of \$428,750 and \$379,750 at June 30, 2008 and 2007, respectively have not been reflected in the financial statements as a liability.

In 2000, SDYCS received \$470,000 from the Redevelopment Agency of San Diego to purchase its Storefront facility. A condition of the agreement requires SDYCS to continue to use the facility for its programs until 2055. However, if SDYCS does not meet this condition, the \$470,000, plus accrued interest at 6% is to be returned. Management intends to use the facility in its programs. Accordingly, the \$470,000 of principal at June 30, 2008 and 2007 and interest of \$239,700 and \$185,650 at June 30, 2008 and 2007, respectively have not been reflected in the financial statements as a liability.

**Leases**

SDYCS leases certain facilities under operating lease terms extending through March 2012. Future minimum lease payments for the leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2009	\$231,085
2010	230,330
2011	223,183
2012	<u>181,670</u>
	<u>\$866,268</u>

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 10 - Commitments and Contingencies:** (Continued)

**Leases** (Continued)

In addition, SDYCS leases a facility from the City of San Diego for \$600 per year. The fair value of the lease has not been reflected in the accompanying financial statements as there is no objective basis to do so. Rental expense for the years ended June 30, 2008 and 2007 was \$396,074 and \$267,942, respectively.

**Grants and Contracts**

SDYCS has grants and contracts with various organizations and government agencies which are subject to audit. No material provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liabilities which may result from these audits would not be material. Certain contracts may be terminated or reduced with 90 days written notice to SDYCS in the event that funding for the agreement ceases or is reduced prior to the expiration dates of the contracts.

**Unemployment Insurance**

SDYCS has elected the reimbursable method for payment of its unemployment insurance. As such, claims are paid as presented to SDYCS by the Employment Development Department. Unemployment insurance costs are accrued based on claims reported as of the statement of financial position date, as well as an estimated liability for claims incurred but not reported. The total accrued liability for unemployment insurance costs was \$116,944 and \$113,342 at June 30, 2008 and 2007, respectively and is included in accounts payable and accrued expenses.

**Employee Benefit Plan:**

SDYCS has an employee benefit plan whereby employees are given approximately \$250 per month. Employees may use this to pay premiums for health insurance, or contribute to a plan established under Section 403(b) of the Internal Revenue Code and corresponding sections of the California Code. Contributions on behalf of the employees totalled \$115,000 and \$118,000 for the years ended June 30, 2008 and 2007, respectively and is included in employee benefits.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**Note 11 - Related Party Transaction:**

For the years ended June 30, 2008 and 2007, SDYCS paid insurance premiums to a brokerage firm that employs a member of SDYCS' Board of Directors totalling approximately \$182,000 and \$218,000, respectively.

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
<b>U.S. Department of Health and Human Services (DHHS):</b>		
<b>Direct Programs:</b>		
Basic Center Grant - FYSB	93.623	\$ 123,396
Transitional Living for Homeless Youth - Take Wing/FYSB	93.550	200,275
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth - Street Outreach	93.557	<u>100,241</u>
		<u>423,912</u>
<b>Pass-Through From Homestart/County of San Diego:</b>		
Promoting Safe and Stable Families - Community Services for Families/East Region	93.556	<u>333,121</u>
<b>Pass-Through From Say San Diego/County of San Diego:</b>		
Promoting Safe and Stable Families - Community Services for Families/North Central	93.556	143,454
Promoting Safe and Stable Families - Community Services for Families/Central	93.556	309,658
Community Services Block Grant - Family Self Sufficiency	93.569	<u>4,240</u>
Total Pass-Through From Say San Diego/County of San Diego		<u>457,352</u>
<b>Pass-Through From County of San Diego:</b>		
Foster Care - AFDC/Foster Family	93.658	326,564
Foster Care - AFDC/Intensive Foster Care	93.658	134,997
Foster Care - AFDC/Group Home	93.658	514,548
Foster Care - AFDC/Deaf Group Home	93.658	331,441
Promoting Safe and Stable Families - Adoptions Support Services	93.556	449,207
Block Grants for Prevention and Treatment of Substance Abuse - Mid City TRC	93.959	132,708
Block Grants for Prevention and Treatment of Substance Abuse - Teen Options	93.959	15,092
Block Grants for Prevention and Treatment of Substance Abuse - East TRC	93.959	313,881
Chafee Foster Care Independence Program - ILS North Central	93.674	81,780
Chafee Foster Care Independence Program - ILS East	93.674	90,812
Medical Assistance Program - School Based EPSDT	93.778	143,637
Medical Assistance Program - Foster Care EPSDT	93.778	99,880
Medical Assistance Program - CAT YAR	93.778	122,987
Medical Assistance Program - Deaf Group Home EPSDT	93.778	73,920
Medical Assistance Program - Counseling Cove	93.778	<u>180,843</u>
Total Pass-Through From County of San Diego		<u>3,012,297</u>

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services (DHHS):</b> (Continued)		
<b>Pass-Through from South Bay Community Services:</b>		
ILS - East	93.674	\$ 80,962
<b>Pass-Through From State of California Department of Health Services:</b>		
Temporary Assistance for Needy Families - Vision Achievement Mentoring	93.558	174,426
<b>Pass-Through From San Diego State Research Foundation:</b>		
Family and Community Violence Prevention Program - 2006 Minority Health Youth Empowerment Grant Program	93.910	150,988
<b>Pass-Through From Center for Community Solutions</b>		
Family Violence Prevention and Service/Grants for Battered Women's Shelters - Discretionary Grants - Connections Initiative	93.592	717
<b>Pass-Through From Phoenix Housing San Diego, Inc.:</b>		
Substance Abuse and Mental Health Services	93.243	<u>44,355</u>
Total U.S. Department of Health and Human Services		<u>4,678,130</u>
<b>U.S. Department of Housing and Urban Development (HUD):</b>		
<b>Direct Programs:</b>		
Supportive Housing Program	14.235	92,201
Section 8 Housing Choice Vouchers - Section 8	14.871	<u>39,664</u>
		<u>131,865</u>
<b>Pass-Through From St. Vincent De Paul's:</b>		
Supportive Housing Program - Solutions IV	14.235	67,387
Supportive Housing Program - Solutions II/V - SF	14.235	72,692
Supportive Housing Program - Solutions V - Coastal Outreach	14.235	<u>7,688</u>
Total Pass-Through From St. Vincent De Paul's		<u>147,767</u>
<b>Pass-Through From the City of La Mesa:</b>		
Community Development Block Grant/Entitlement Grant	14.218	<u>2,875</u>
Total U.S. Department of Housing and Urban Development (HUD)		<u>282,507</u>

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
<b>U.S. Department of Education:</b>		
<b>Pass-Through From San Diego Unified School District:</b>		
No Child Left Behind	84.010	\$ <u>16,325</u>
Total U.S. Department of Education		<u>16,325</u>
Total Expenditures of Federal Awards		<u>\$4,976,962</u>





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**Independent Auditor's Report on Internal Controls  
Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed  
in Accordance With Government Auditing Standards**

To the Board of Directors  
San Diego Youth & Community Services, Inc.

We have audited the financial statements of San Diego Youth & Community Services, Inc. (A Nonprofit Organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered San Diego Youth & Community Services, Inc.'s internal control of financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Diego Youth & Community Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether San Diego Youth & Community Services, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to the management of San Diego Youth & Community Services, Inc. in a separate letter dated November 19, 2008.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leaf & Cole LLP

San Diego, California  
November 19, 2008



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**Independent Auditor's Report on  
Compliance With Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors  
San Diego Youth & Community Services, Inc.

**Compliance**

We have audited the compliance of San Diego Youth & Community Services, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. San Diego Youth & Community Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of San Diego Youth & Community Services, Inc.'s management. Our responsibility is to express an opinion on San Diego Youth & Community Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Diego Youth & Community Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Diego Youth & Community Services, Inc.'s compliance with those requirements.

In our opinion, San Diego Youth & Community Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of San Diego Youth & Community Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered San Diego Youth & Community Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Diego Youth & Community Services, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leaf & Cole LLP

San Diego, California  
November 19, 2008

**SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Section I - Summary of Auditor's Results:**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u>  X  </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes <u>  X  </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u>  X  </u> No

**Federal Awards**

Type of auditor's report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
Material weakness(es) identified?	_____ Yes <u>  X  </u> No
Significant deficiencies identified not considered to be material weakness(es)?	_____ Yes <u>  X  </u> None reported
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ Yes <u>  X  </u> No
Identification of major programs:	U.S. Department of Health and Human Services

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.658	Foster Care - Title IV - E
93.959	Block Grants for Prevention and Treatment of Substance Abuse

SAN DIEGO YOUTH & COMMUNITY SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2008

**Federal Awards** (Continued)

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

  X   Yes

       No

**Section II - Financial Statement Findings:**

None

**Section III - Federal Award Findings and Questioned Costs:**

None